

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable George W. Zubaty, Gallatin County Judge/Executive
Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Gallatin County, Kentucky, for the year ended December 31, 2002.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Gallatin County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
CLERK**

**For The Year Ended
December 31, 2002**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
Facsimile (502) 499-9132

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GALLATIN COUNTY CLERK

**For The Year Ended
December 31, 2002**

Ross & Company, PLLC has completed the Gallatin County Clerk's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$5,335 from the prior calendar year, resulting in excess fees of \$7,282 as of December 31, 2002. Revenues increased by \$126,064 from the prior year and disbursements increased by \$120,729.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

On April 9, 2002, \$563 of the Gallatin County Clerk's deposits of public funds were uninsured and unsecured by bank securities or bonds

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES.....	3
NOTES TO FINANCIAL STATEMENT	6
COMMENT AND RECOMMENDATION	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
Facsimile (502) 499-9132

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable George W. Zubaty, Gallatin County Judge/Executive
Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Gallatin County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable George W. Zubaty, Gallatin County Judge/Executive
Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
August 22, 2003

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State Fees For Services		\$	3,566
Fiscal Court			16,779
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	192,075	
Usage Tax		536,730	
Tangible Personal Property Tax		501,666	
Licenses-			
Fish and Game		12,198	
Marriage		2,657	
Occupational		3,244	
Deed Transfer Tax		21,841	
Delinquent Tax		80,349	1,350,760
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	7,436	
Real Estate Mortgages		19,752	
Chattel Mortgages and Financing Statements		24,324	
Powers of Attorney		1,029	
Late Fees		2,820	
All Other Recordings		12,776	
Charges for Other Services-			
Candidate Filing Fees/Voter Registration		1,320	
Copywork, Fax, and Phone Calls		4,756	74,213
Interest Earned			618
Total Receipts		\$	1,445,936

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 146,904

Usage Tax 520,628

Tangible Personal Property Tax 187,249

Licenses, Taxes, and Fees-

Fish and Game 11,881

Delinquent Tax 9,497

Legal Process Tax 7,940 \$ 884,099

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 55,433

Delinquent Tax 8,301

Deed Transfer Tax 20,749

Occupational Licenses 3,112

Repayment of Loan 10,000 97,595

Payments to Other Districts:

Tangible Personal Property Tax \$ 238,917

Delinquent Tax 44,443 283,360

Payments to Sheriff

559

Payments to County Attorney

11,002

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 54,106

Part-Time Salaries 4,403

Overtime 597

Employee Benefits-

Employer's Share Social Security 8,791

Contracted Services-

Advertising 1,026

Printing and Binding 2,195

Copier Lease and Computer Support 5,182

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements (Continued):

Operating Disbursements and Capital Outlay (Continued):

Materials and Supplies-			
Office Supplies	\$	2,534	
Other Charges-			
Conventions and Travel		1,642	
Dues		350	
Election Expenses		4,077	
Postage		6,916	
Returned Checks		133	
Telephone		2,231	
Prepare Tax Bills		1,206	
Refunds		317	
Miscellaneous Expenses		<u>276</u>	\$ 95,982
Debt Service:			
Lease Purchases		<u>1,680</u>	
Total Disbursements			<u>\$ 1,374,277</u>
Net Receipts			\$ 71,659
Less: Statutory Maximum	\$	57,812	
Training Incentive Benefit		<u>2,965</u>	<u>60,777</u>
Excess Fees			\$ 10,882
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for 2002			\$ 7,282
Payments to County Treasurer - March 25, 2003			<u>7,282</u>
Balance Due at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the year.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 9, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$563 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of April 9, 2002.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$4,910. No funds were expended during calendar year 2002. The unexpended grant balance is \$4,910 as of December 31, 2002.

Note 5. Lease

The office of the County Clerk is committed to a lease agreement with Toshiba for a copier. The agreement requires a monthly payment of \$140 for 60 months to be completed on February 1, 2005. The total balance of the agreement is \$3,500 as of December 31, 2002.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENT AND RECOMMENDATION

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected officials control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

County Clerk's Response:

None.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George W. Zubaty, Gallatin County Judge/Executive

Honorable Tracy Miles, Gallatin County Clerk

Members of the Gallatin County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Gallatin County Clerk for the year ended December 31, 2002, and have issued our report thereon dated August 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Gallatin County Clerk's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -
August 22, 2003

